

UTAH'S SALES AND USE TAX SYSTEM

Prepared for:

Revenue and Taxation Interim
Committee

August 30, 2017



PRESENTATION OUTLINE

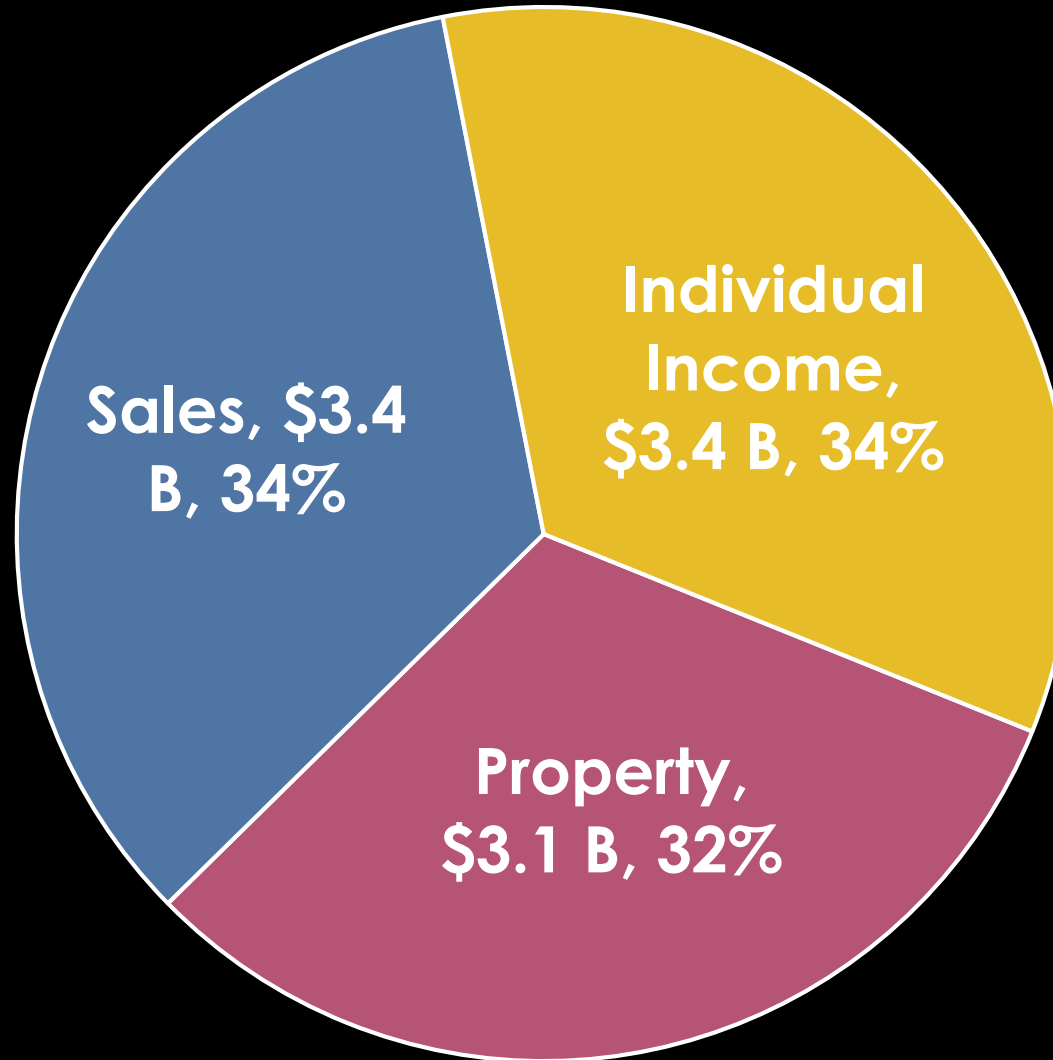
Overview

Sales & Use Taxes

What's happening to the Sales & Use Tax?

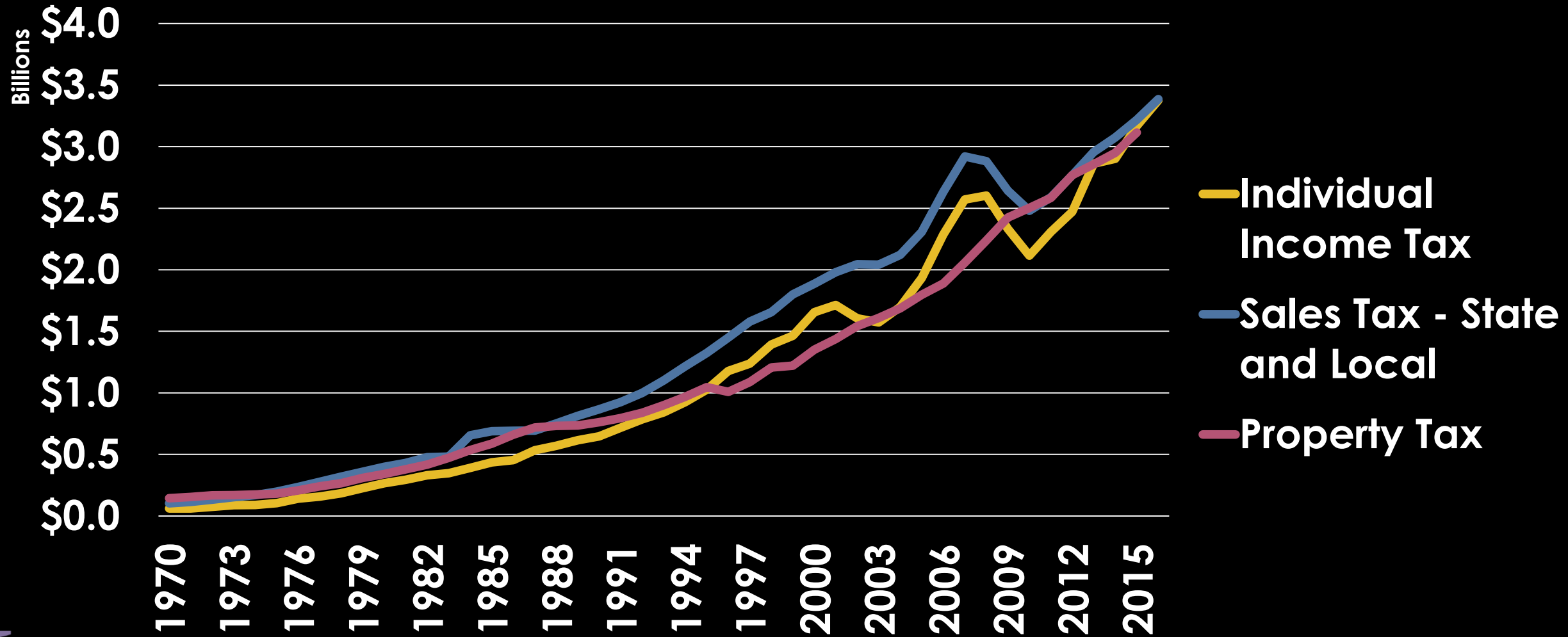
UTAH'S THREE MAJOR STATE AND LOCAL TAXES: INCOME, PROPERTY, AND SALES & USE TAX REVENUES FY 2016

**Total FY 2016
Revenue:
\$9.9 Billion**



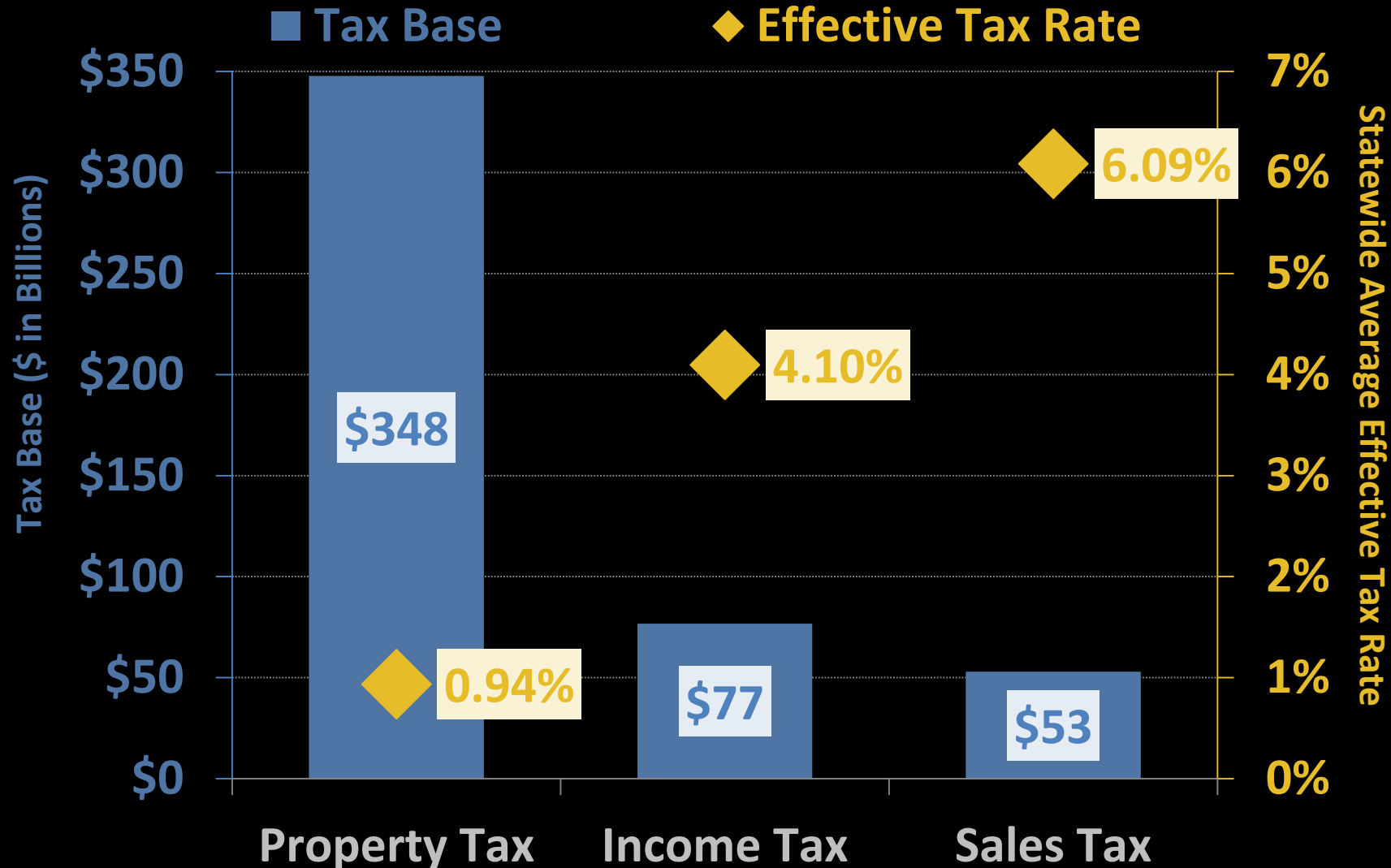
State and Local Sales & Use, Individual Income, and Property Tax Revenues

FY 1970 to FY 2016



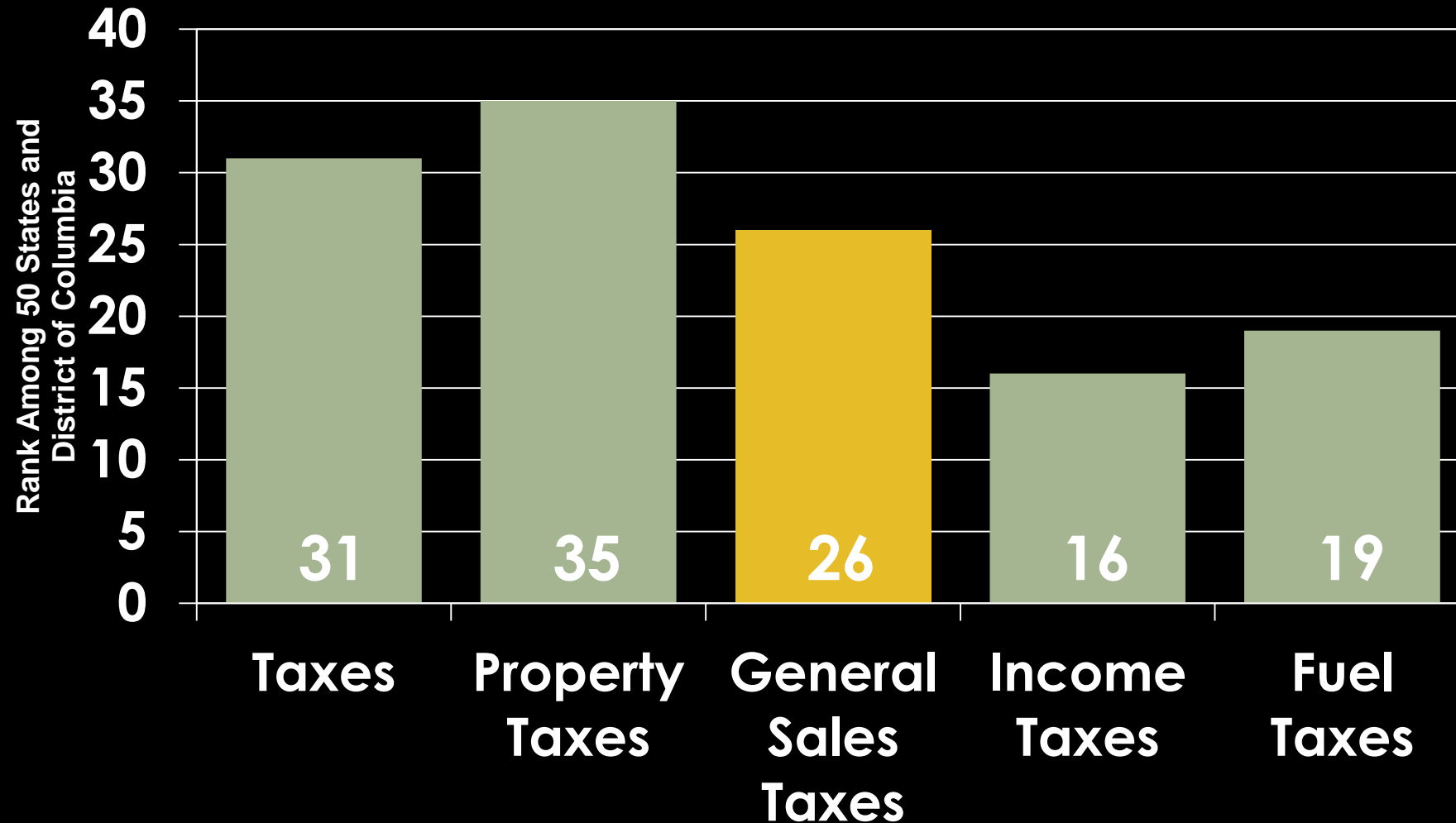
UTAH TAX BASE & EFFECTIVE TAX RATES

(2015 TAX BASE IN BILLIONS OF DOLLARS)



How Utah Compares

Utah's Rank Among States based on Taxes as a Percent of Personal Income
FY 2014

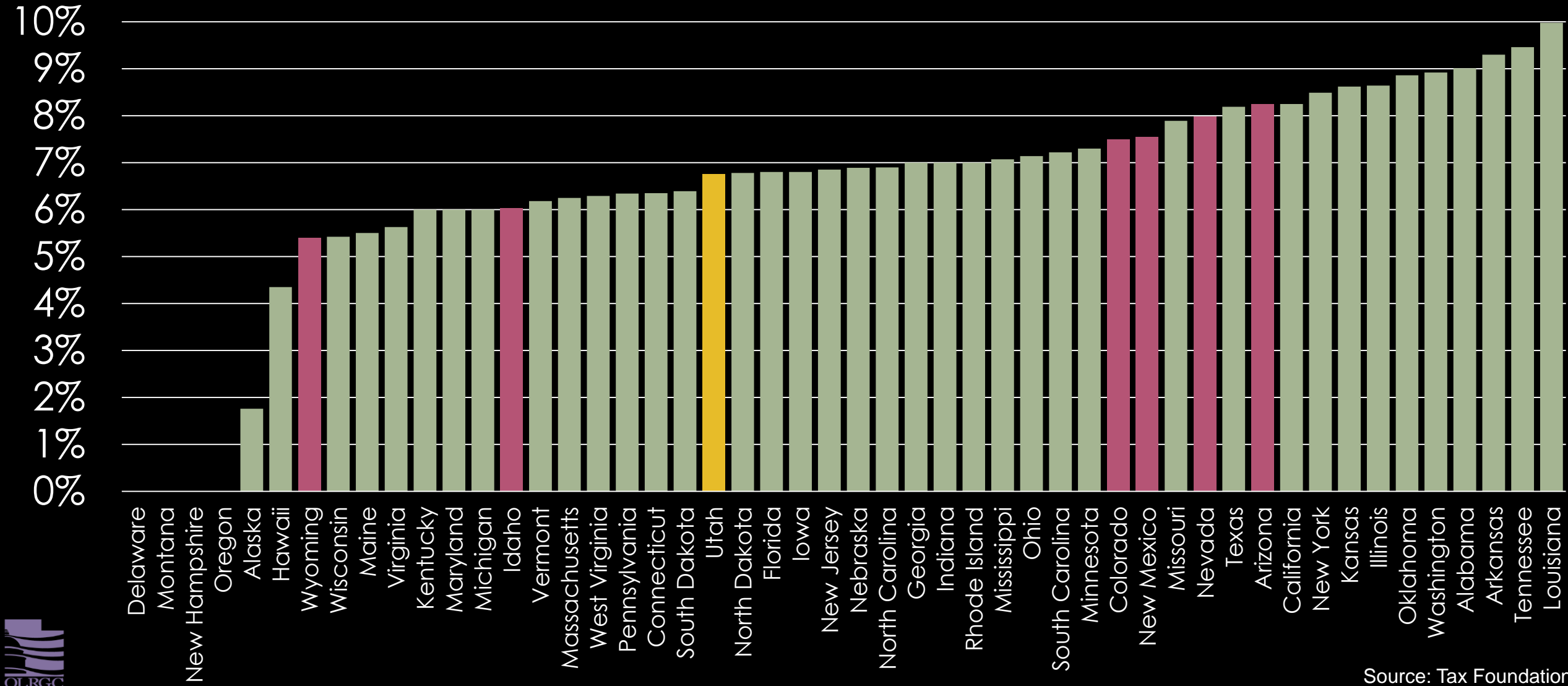


Source: U.S. Department of Commerce, U.S. Census Bureau, and Utah State Tax Commission

How Utah Compares

Tax Foundation's State and Local Sales Tax Rates

2017



Source: Tax Foundation



SALES & USE TAXES

State and Local

The Utah Sales and Use Tax Base: What Do We Tax?

Sale or repair of products transferred electronically



The Utah Sales and Use Tax Base:

What Do We Tax?

Sale, lease, or rental of tangible personal property

Telecommunication services

Certain cleaning services (dry cleaning, pets, etc.)

Food (prepared and unprepared)

Repair or renovation of tangible personal property

Admissions (movies, recreation, golf, sports, trails, etc.)

Hotel and motel accommodations and services

Gas, electricity, heat, coal, etc. (commercial / residential)

Sale or repair of products transferred electronically

The Utah Sales and Use Tax Base: What Do We Tax?

See handout:

Utah's Sales and Use Tax Base as
provided in Utah Code Subsection
59-12-103(1)

The Utah Sales and Use Tax Base: What Don't We Tax?

Two types of transactions that are not taxed:

Exclusions

- Not included in sales tax base definition

Exemptions

- Included in sales tax base definition **but . . .**
- Exempt from taxation by a separate statutory provision

The Utah Sales and Use Tax Base:

What Don't We Tax?

Exclusions include:

- Banking, financial, and insurance services
- Professional services, including legal, accounting, administrative, architecture, engineering, design, computer, consulting, lobbying, research, advertising, public relations, management, and marketing services
- Personal care services
- Death care services
- Health care and social services
- Educational services
- Real estate transactions
- Transportation services

The Utah Sales and Use Tax Base:

What **Don't** We Tax?

Exemptions

- See handout: “[Sales Tax Exemptions by Category](#)”

Sales and Use Tax Rate

What's the Rate?

$$\begin{array}{|c|} \hline \text{State Tax} \\ \hline \text{Rate} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Sum of} \\ \hline \text{Local Tax} \\ \hline \text{Rates} \\ \hline \text{Imposed} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Total Tax} \\ \hline \text{Rate} \\ \hline \end{array}$$

Other considerations:

- What is being purchased
- How the sale is sourced (origin vs. destination)

State Sales and Use Tax Rates

The state sales tax rate depends on what is being taxed



Food and food ingredients → 1.75%



Residential fuels → 2.00%



General → 4.70%

Local Sales and Use Tax Rates

Depends on which Local Option Sales Taxes are Imposed



- 1.00% city, towns, unincorporated areas (**statewide**)
- 0.25% county (**statewide**)
- Up to 1.60% resort communities
- 0.50% state correctional facility
- Up to 1.05% transportation
- 0.10% “zoo, arts, and parks”
- 1.00% rural hospitals
- Up to 6.25% transient room
- Up to 9.50% vehicle rental
- 1.00% restaurant food
- Up to 6.00% municipal energy

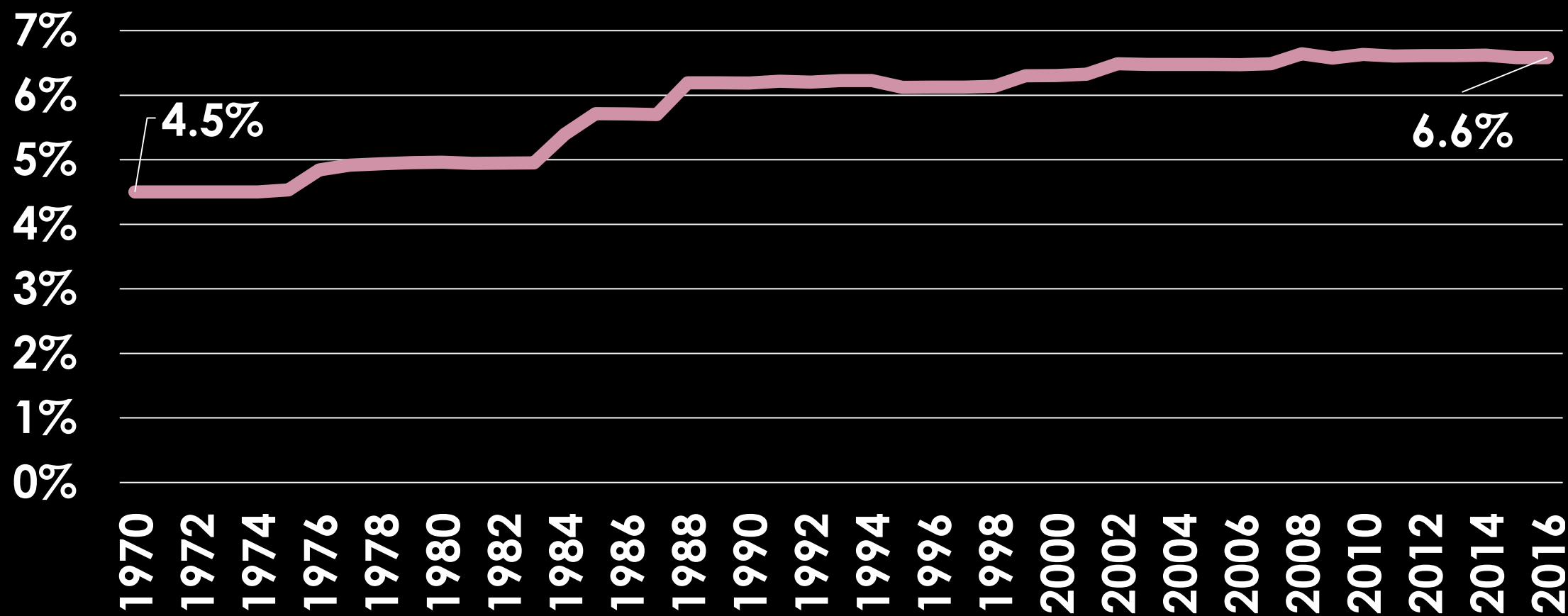
The only local rates that apply to **food** are the two **statewide rates**.



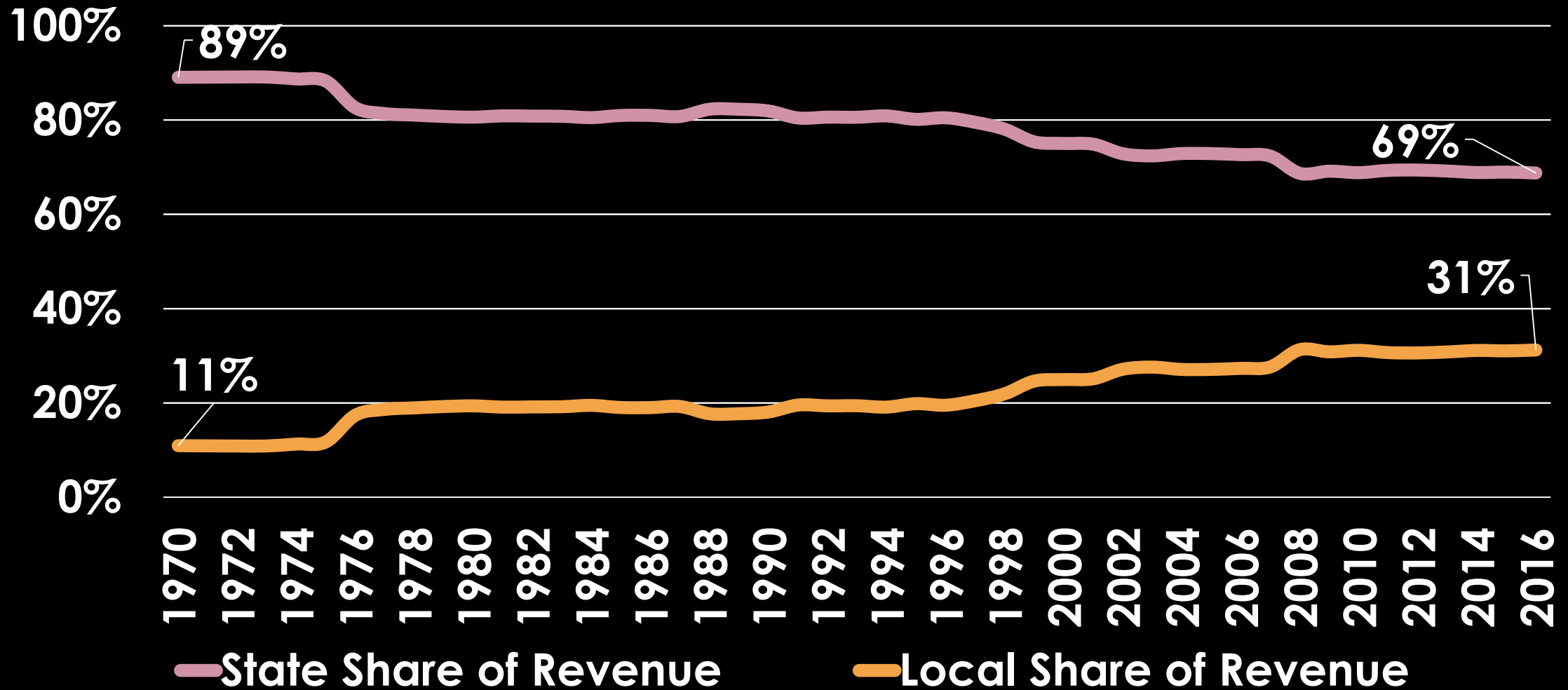
WHAT'S HAPPENING TO THE SALES & USE TAX?

RATES ARE GETTING HIGHER . . .

Combined State and Local Sales Tax Rate (derived)

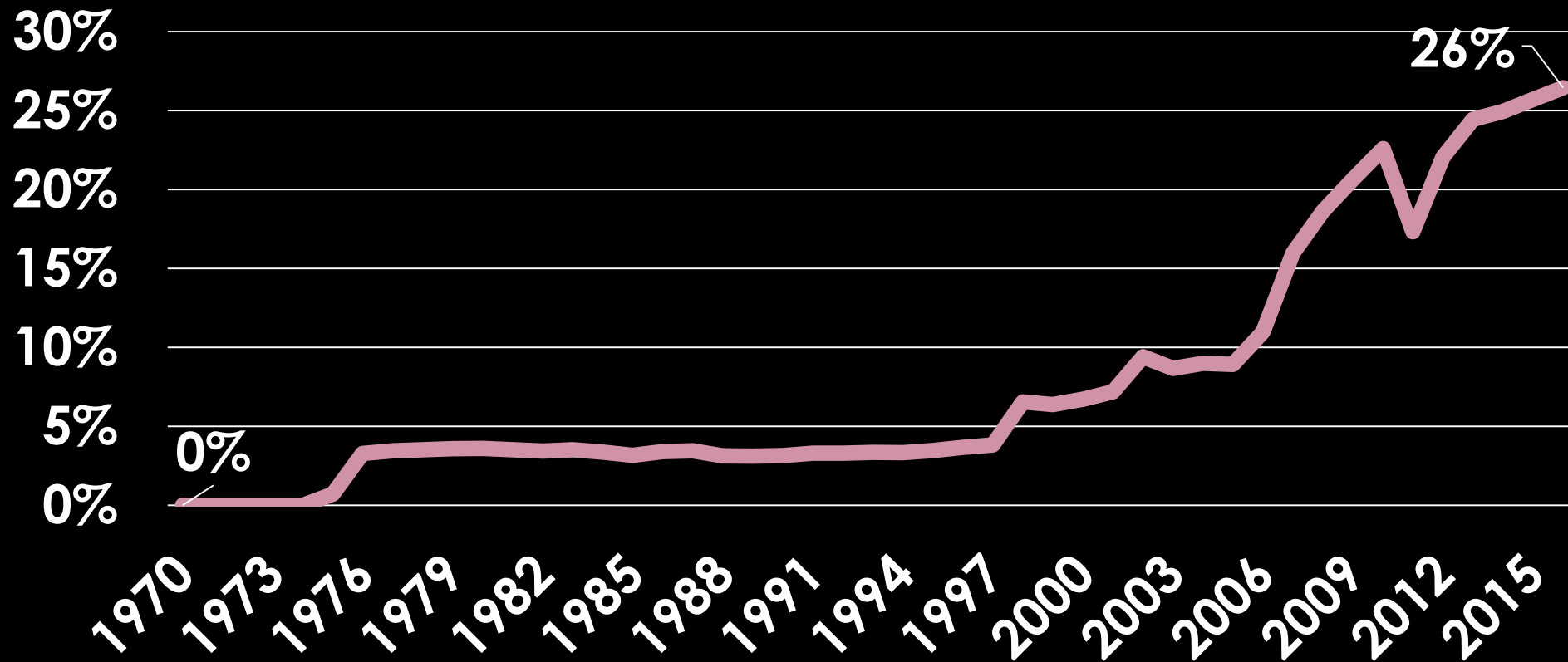


A GREATER SHARE OF THE REVENUE IS GOING TO LOCAL GOVERNMENTS . . .



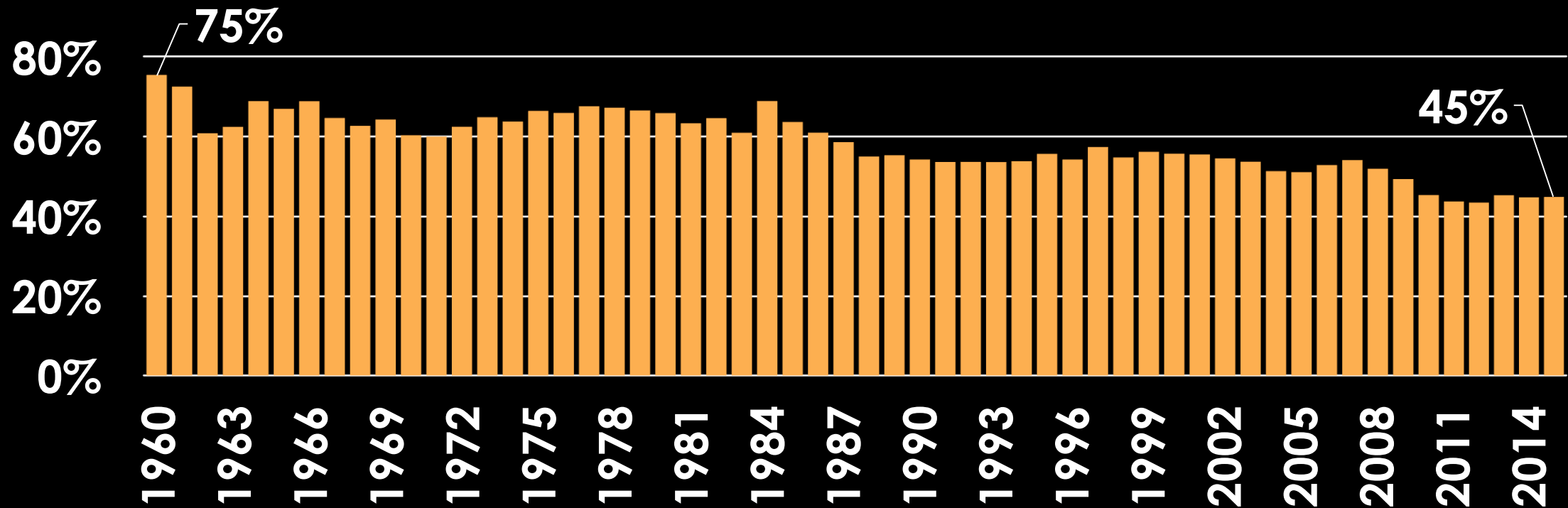
A GREATER SHARE OF REVENUE IS BEING EARMARKED . . .

Earmarked Sales Tax Revenue



THE BASE IS SHRINKING . . .

Sales Tax Base as a % of Utah Personal Income



Over the long term, the sales and use tax base is gradually declining relative to the economy as a whole.

WHY IS THE BASE SHRINKING?

Changing purchasing patterns

- Movement to more of a service-based economy
- Sharing economy

Demographic changes

- Rising millennials
- Aging baby boomers

Cross-border shopping

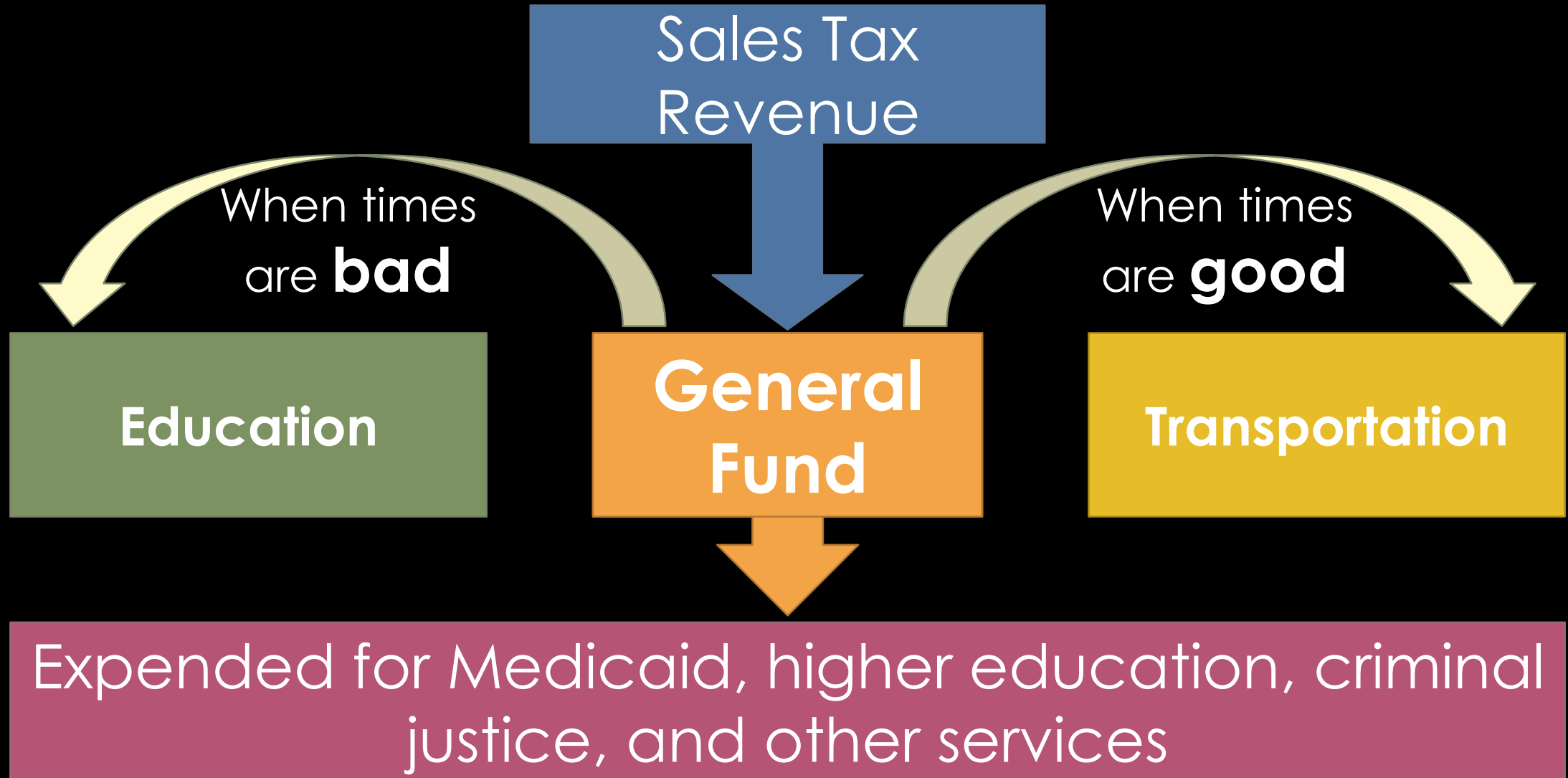
- Internet, phone, and catalogue purchases

Technological change

- Digitization of goods (software, books, music)

Legislated exemptions

THE GENERAL FUND IS GETTING SQUEEZED...



OPTIONS . . .

Broaden the base

- Services
- Household consumption
- Remote sales
- Exemptions
- Other

Tax everything at the general rate

- Food
- Residential energy

Change the base

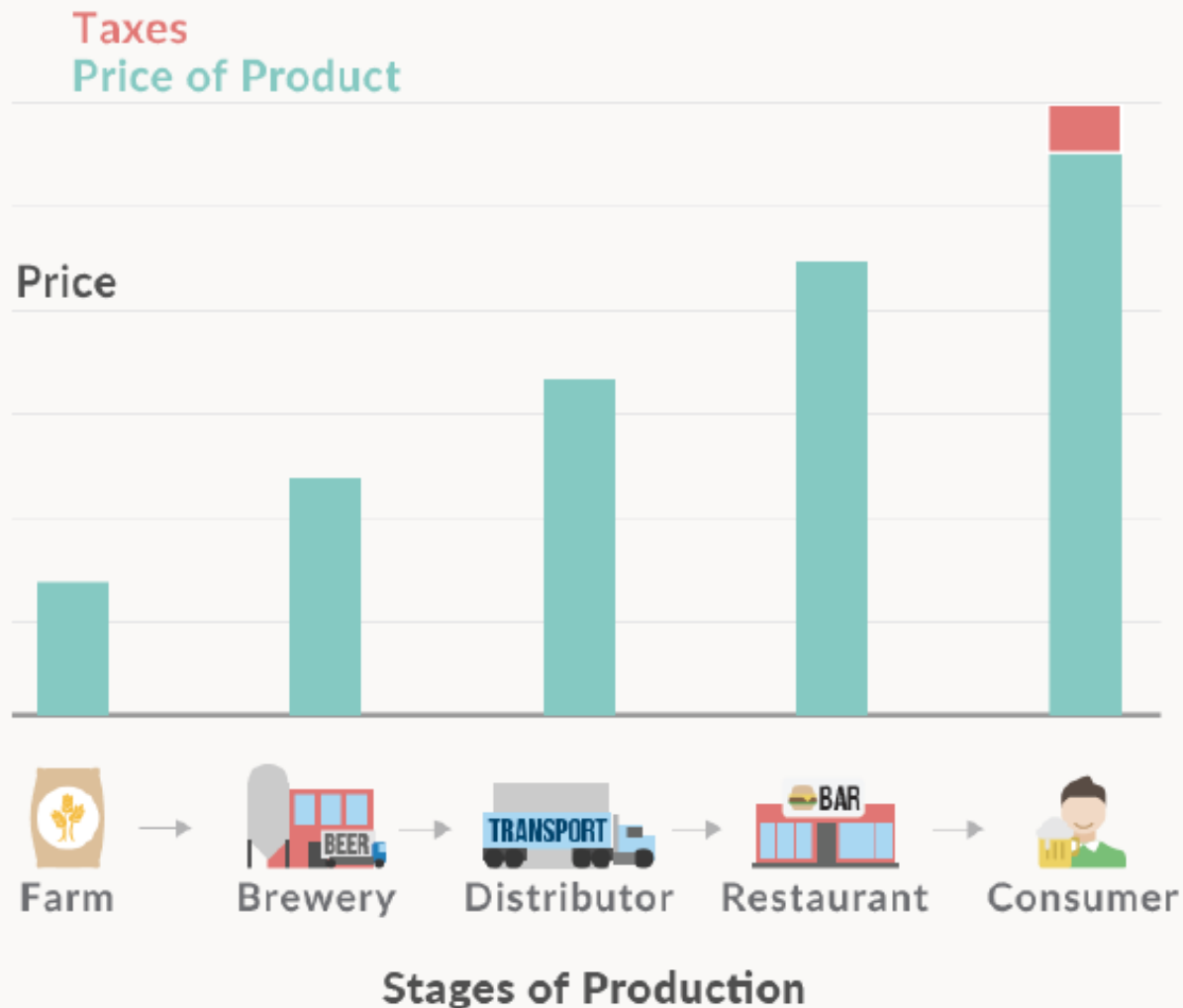
- Business inputs
- Household consumption

OPTIONS . . .

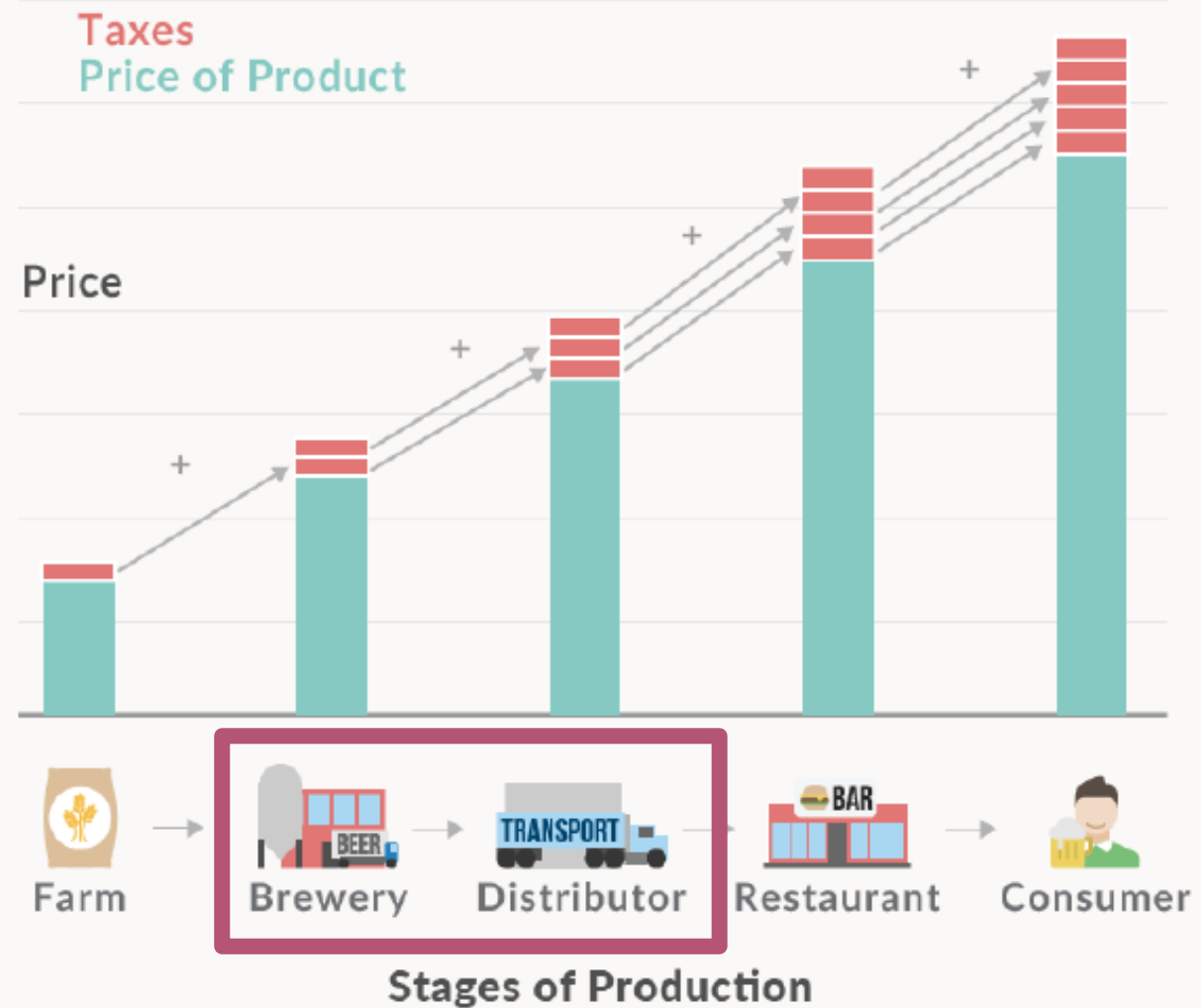
- Charles McLure's principles to modernize the sales tax:
 - **Tax all consumption** - uniformly tax all consumption so that the tax does not distort consumer choices.
 - **Exempt business purchases** - do not tax business to businesses sales so that the tax does not distort business decisions.
 - **Exempt investment** - do not tax investment so that the tax does not discourage saving and investment.

SALES TAXATION OF BUSINESS INPUTS

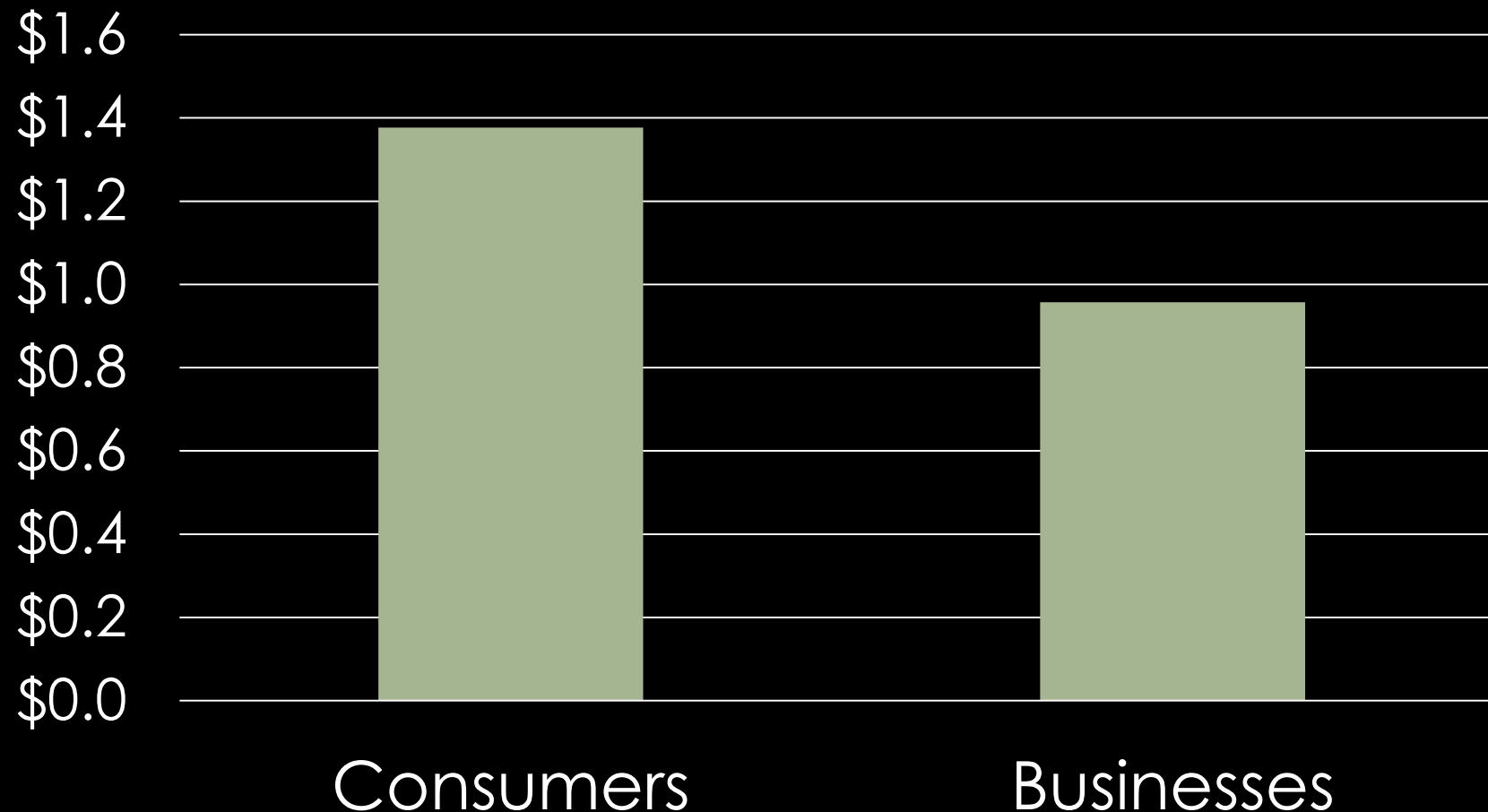
Ideal Sales Tax on Final Consumption



Gross Receipts Tax



STATE SALES TAX PAID BY CONSUMERS AND BUSINESSES (BILLIONS OF DOLLARS)



Total State
Sales Tax
Revenue
for FY 2016:
\$2.3 billion

The Utah Sales and Use Tax Base: What **Do** We Tax?

See Tax Foundation Handout to
see how other states are taxing
consumption and business inputs

**Please feel free to contact us with any questions at
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